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10 July 1957

Chief, SA/1/R : ATTN: [REDACTED]

THRU : Chief, D/S

Chief, S/IF

Requirements for Source [REDACTED]

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In response to your request, the following requirements are submitted for the subject sources:

1. What is the amount of Hungary's currently outstanding foreign indebtedness? Outside the Bloc? Intra-Bloc? How is this indebtedness secured? Is it being refinanced periodically, and if so, on what terms? and with whom? (private banks? government agencies, etc.?) Are there any present prospects of long-term, consolidated refinancing? Has Hungary had a persistent credit or debit balance on her trade within the Bloc? In either case, what has the approximate magnitude of this balance been? To what extent does insistence by COMECON (or the USSR) that specific commodities be exported to Bloc trading partners prevent their sale in the West for Western exchange? (Alternatively are intra-Bloc markets readier to accept Hungarian products - quality-wise - than Western buyers?) What methods was Hungary utilizing to reduce its foreign indebtedness prior to the October 1956 revolt? Are any changes anticipated as a result of the revolt?

2. Are barter deals currently being negotiated between Hungary and Middle or Far Eastern countries on terms economically favorable to Hungary? Is Hungary under political pressure to grant credit terms she herself cannot afford? Does Hungary receive under these deals goods surplus to Hungary's own requirements? If so, does she attempt to re-export raw materials acquired in this fashion? Is it necessary to accept a loss in doing so?

3. How do the prices commonly charged by Hungary in sales to the West compare with (1) prices for the same commodities entering into Intra-Bloc trade, and (2) with the domestic forint cost of producing these commodities? How are losses on export sales made up to the producing enterprises? Is any distinction made in export price policy between agricultural goods, other raw and semi-

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processed materials, and manufactured products? Are foreign trade prices charged and received on a single commodity uniform throughout the Bloc? Is preferential treatment on prices received by the USSR or any other Satellites.

4. Does Hungary act as a purchasing agent for any other members of the Bloc in the West? Does she receive Western products through Bloc trading partners? Is it common practice for Hungary to sell goods in return for commodities intended primarily for re-export rather than domestic use? Where such multilateral deals are arranged, are the commodities physically transhipped through Hungary? sometimes? usually? seldom? When Hungary engages in multilateral transactions, does the deal commonly result in profit or loss to Hungary?

5. To what extent does Hungary buy and sell through middlemen? Who takes the initiative in arranging such transactions? How much commission does Hungary normally have to pay for such services? By how much does the necessity of buying on credit and/or through middlemen increase the cost to Hungary of buying in the West? Specifically, what role do Dutch, Swiss, and West German firms play in arranging and financing Hungarian trade?

6. What role does COMECON play in determining the precise pattern of trade among Bloc members? Are absolute import-export quotas assigned to trading partners? Are the quotas provided in the annual trade agreements usually fulfilled promptly: by Hungary? by Hungary's trading partners? How much discretionary leeway do the import-export enterprises have in negotiating specific contracts with the West? with the Bloc trading partners?

7. Describe governmental restrictions on Hungary's imports, exports and foreign exchange. Where (or on what agencies) are these restrictions levied? How effective are they in reducing hard currency shortages and eliminating marginal imports?

8. What procedures are used to determine types and quantities of commodities to be imported and exported by Hungary? Where are decisions of this nature made (e.g., COMECON, state planning agencies, or individual foreign trade companies?)

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9. What are Hungary's and/or the Satellites' competitive strengths and weaknesses in the foreign trade field? Under strengths, list and describe competitive advantages over free world rivals (e.g. import and/or export subsidies, intra-bloc and/or interagency cooperation in spotting and negotiating favorable transactions, variations in official and market exchange rates for the forint. Under weaknesses, list and describe shortages of machinery, parts, raw materials, and hard currency, if appropriate. Note examples of poor workmanship, maladministration and similar factors, if they are regarded as weaknesses in Hungary's foreign trade structure. Describe and evaluate attempts to eliminate these weaknesses.

10. What major changes in trade patterns by geographic area, commodity and total trade may be expected to result from the Hungarian revolt? Indicate possible changes in basic foreign trade policy and note the most important weaknesses in Hungary's trade position likely to result from the rebellion.

11. From what banks or financial houses in western Europe has Hungary received commercial loans for the financing of its trade with the west? What is the extent of its outstanding indebtedness to the West at present? What rate of interest does it pay for these loans? Does the USSR or China ever make similar short-term loans of sterling, dollars, gold or platinum to Hungary?

12. What percent of Hungary's commodity exports to the West is used to pay for transportation and insurance on Hungarian imports provided by Western shipping concerns?

13. How large a foreign exchange debt can Hungary carry without undue strain? What is its size now?

14. Is there any pooling of gold or foreign exchange among the Satellites? If so, which country or bank(s) serves as the holder of the pool?

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15. Where gold is used to repay debts, is this gold normally Satellite-owned or is USSR gold sold for foreign currency which is made available to the Satellites?

16. What is the level of gold and foreign exchange reserves in Hungary?

17. Does Free World control of strategic materials have an effect on the Hungarian economy? If so, what areas are involved? If possible quantify the extent of disruption, adjustment or other effects noted? In what areas not presently covered would such controls be effective?

18. Is any particular effort specifically directed toward the procurement of strategic materials from Free World countries? If so, provide details, including personnel, organizational components, and techniques involved.

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